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ADMINISTRATIVE AND FINANCIAL MATTERS

AUDITED FINANCIAL STATEMENTS FOR THE BIENNIUM 2000–2001

Report of the United Nations Board of Auditors

Note by the Executive Secretary*

1. The financial procedures of the Convention require that "a final audited statement of accounts for the full financial period shall be provided to the Conference of the Parties as soon as possible after the accounts for the financial period are closed." They also stipulate that "the accounts and financial management of all funds governed by these financial procedures shall be subject to the internal and external audit process of the United Nations" (FCCC/CP/1995/7/Add.1, decision 15/CP.1, annex I, paras. 18-19).

2. The United Nations Board of Auditors audited the financial statements for the biennium 2000-2001. The full text of the Board's report, which was received by the secretariat on 18 July 2002, is attached herewith as received, without editing. The financial statements as at 31 December 2001 have been issued as an addendum to this document.

3. The Subsidiary Body for Implementation is invited to take note of the information contained in the audited financial statements and the report of the external auditors. It may also wish to propose appropriate actions which may be included in the draft decisions on administrative and financial matters to be adopted by the Conference of the Parties at its eighth session.

* Submission of this document was delayed because internal consultations took more time than had been anticipated.

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I. LETTER OF TRANSMITTAL

UNITED NATIONS **NATIONS UNIES**

BOARD OF AUDITORS

NEW YORK

FAX (212) 963-3684

27 June 2002

Sir,

I have the honour to transmit to you the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the biennium 2000–2001 ended 31 December 2001, which were submitted by the Executive Secretary. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(signed)
Shauket A. FAKIE
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the Conference
of the Parties
United Nations Framework Convention
on Climate Change
Bonn, Germany

II. REPORT OF THE UNITED NATIONS BOARD OF AUDITORS ON THE FINANCIAL STATEMENTS OF THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE FOR THE PERIOD ENDED 31 DECEMBER 2001

A. SUMMARY

The Board of Auditors has reviewed the operations of the United Nations Framework Convention on Climate Change (UNFCCC), and has audited its financial statements for the biennium ended 31 December 2001.

The Board's main findings are:

(a) The records of unliquidated obligations are not accurate;

(b) Travel advances have not been cleared in a timely manner, but corrective action was under way mid-2002;

(c) UNFCCC does not get any interest on balance of its bank account opened at Bonn while at the same time it pays for bank services;

(d) Due to current arrangements between UNFCCC and the United Nations Office at Geneva, UNFCCC is not in a position to monitor payment of salaries made to its staff;

(e) The Board expresses its concern that at the end of the biennium 2000-2001 no final decision had yet been made on the Integrated Management Information Systems (IMIS);

(f) An internal audit review on the determination of steps within grade for all staff considered that, out of 109 cases, 38 cases were under-graded and 16 cases over-graded. At the end of biennium 2000-2001, an amount of $200,000 has been accounted as unliquidated obligation in the Core Budget to correct the situation of under-graded staff. The amount paid on the basis of over-graded steps has not been computed by UNFCCC.

The Board made recommendations to strengthen the budget planning, ensure a complete and accurate disclosure of non-expendable property, improve financial records, bank services, IMIS and the co-ordination with the United Nations Office at Geneva.

A list of the main recommendations is presented in paragraph 7 of the Board's report.

B. INTRODUCTION

1. The Board of Auditors has audited the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the biennium 2000–2001, in accordance with decision 15/CP1 of the Conference of the Parties. The audit was conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium 2000–2001 had been incurred for the purposes approved by the governing body; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNFCCC presented fairly the financial position as at 31 December 2001. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary.

3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under regulation 12.5 of the Financial Regulations and Rules of the United Nations. The reviews primarily concerned the human resources management, the administrative arrangements with the United Nations Office at Geneva, and the information and communication technology system.

4. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Conference of the Parties. The Board's observations and conclusions were discussed with the secretariat whose views, where appropriate, have been reflected in the present report.

5. The Board's main recommendations are presented in paragraph 7 below. The detailed findings are in paragraphs 9 to 67.

PREVIOUS RECOMMENDATIONS NOT FULLY IMPLEMENTED

6. The Board has reviewed the action taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1999 and confirms that, in general, there are no important outstanding matters. Details of the action taken and the comments of the Board are set out in the annex to the present report.

MAIN RECOMMENDATIONS

7. The Board's main recommendation are that UNFCCC:

(a) Improve accounting and internal control procedures (para. 29);

(b) Improve its procedures to register, track and control UNOG-based operations, and decide and implement the financial management system with full assistance from the United Nations as a matter of priority (para. 55 and 58);

(c) Value precisely the costs incurred by over-grading staff members and take steps to minimize this over-expenditure (para. 66);

8. The Board's other recommendations are shown in paragraphs 15, 21, 24, 26, 31, 33, 37, 42, 48, 51, 53, 62, and 64.

C. FINANCIAL ISSUES

FINANCIAL POSITION

Overall position

9. Statement I shows that the combined reserves and fund balances increased by some $5.0 million, from $11.5 million to $16.5 million during 2000–2001. The increase is mainly the result of:

(a) A net excess of $2.4 million in income over expenditure of the special account for UNFCCC Programme support costs;

(b) The increase from $2.2 million at the end of 1999 to $4.4 million at the end of 2001 of the reserves of the Trust Fund for Supplementary activities;

(c) A net excess of $1.1 million of income over expenditure of the Special Account for Technical co-operation ("Clean Development Mechanism Project", financed by the United Nations Fund for International Partnership, UNFIP);

(d) A short-fall of income over expenditure of $1.5 million, with the reserves of the Trust Fund for the Core Budget having decreased from $8.1 million to $7.2 million.

10. In the total amount of reserves and fund balances at the end of 2001 ($16.5 million), the part of the Core Budget was $7.23 million (43.8 per cent), while the Trust Fund for Supplementary activities has a balance of $4.42 million (26.7 per cent) and the special account for UNFCCC programme support costs, of $2.44 million (14.7 per cent).

11. Statement II shows assets at December 2001 of $22.6 million ($17.0 million at the end of 1999), and liabilities amounting to $6.1 million ($5.5 million at the end of 1999). The value of assets was 3.7 times the value of liabilities (3.1 in 1999). Cash and term deposits increased by $3.4 million, from $14.4 million to $17.8 million; as a result, the ratio by which cash and term deposits are available to cover liabilities increased from 2.6:1 to 2.9:1.

Outstanding contributions receivable

12. At the beginning of the biennium, a total amount of $1,191,651 was recorded as contributions receivable from 110 Parties of the Convention. The receivable contributions of over $50,000 from seven Parties represented $718,968 (60.3 per cent of the total amount).

13. At the end of the biennium, an amount of $3,420,773 was at first recorded for contributions receivable from 117 Parties. After the closure of the accounts, $2.1 million was paid by one Party. After this payment, the outstanding contributions represent about 5.9 per cent of contributions receivable, close to the level at the end of the previous biennium.

14. Forty-two Parties owing $132,799 at the end of 1999 did not pay any contribution during the biennium 2000–2001, and now owe $216,509. No provision has been made for doubtful receivables in contributions. This option is allowed by United Nations System Accounting Standard 33, but caution might lead to consider setting such a provision.

15. The Board recommends that UNFCCC pursue its efforts to obtain payments from Parties, and consider creating a provision for doubtful receivables.

Core budget implementation

16. At its fifth session, the Conference of the Parties approved the programme budget for the biennium 2000–2001, which amounted to over $25 million ($22.3 for Programmes expenditure, $2.9 million for overhead charges and $86,900 for working capital reserve). The Conference of Parties approved an additional resource of $1,263,200 for national communications. It also authorized the Executive Secretary to incur additional expenditure of up to $1 million to offset part of the costs of activities arising from the preparatory process leading to the sixth session of the Conference of the Parties.

17. By the same decision the Conference authorized the Executive Secretary to make transfers between each of the main appropriation lines set out in the budget table, up to a limit of 15 per cent of total estimated expenditure for those appropriation lines, provided that a further limitation of up to minus 25 per cent of each such appropriation line shall apply. The expenditure for 2000–2001 against authorized budget was as follows:

Table 1. Implementation of the programme budget for the biennium 2000–2001
(In thousands of United States dollars)

Expenditures	Budget	Expenditure as at 31 December 2001	
1. Programmes		Amount	Percentage
Executive Direction and Management	1,523.2	1,127.4	74.0
Planning, Coordination and Emerging issues	2,447.4	1,724.4	70.5
Science and Technology [1)]	4,644.2	4,173.2	89.9
Implementation [2)]	6,416.4	5,043.1	78.6
Information, Outreach and Administrative Services	3,190.2	3,340.5	104.7
Intergovernmental and Conference Affairs	5,456.6	6,036.3	110.6
Preparation for COP 6 [3)]	885.0	1,952.0	220.6
Sub total	24,63.0	23,396.9	95.3
2. Programme Support Costs (13 per cent)	3,193.2	3,040.6	95.2
Total 1 + 2 =	**27,756.2**	**26,437.5**	**95.2**

[1)] Including an increase of $300,000 from available resources, to the Intergovernmental Panel on Climate Change

[2)] Including an additional resource for secretariat support in accordance with para. 6 of decision 20/CP.5.

[3)] Additional expenditure of up to $1 million for preparatory process leading to the 6th Conference of Parties (COP 6) in accordance with para. 15 of decision 20/CP.5.

18. As shown in table 1, expenditure amounted to 95.2 per cent of the approved budget. Four programmes were underspent, two of them by more than 25 per cent. The other three programmes were overspent, two of them in the authorized frame of 15 per cent.

19. The Board notes that the preparation for the sixth Conference of Parties was overspent by more than 120 per cent, at $1.952 million instead of $0.885 million. UNFCCC explained that this over-expenditure was necessary following the decision to resume COP 6 for another two weeks. The Parties had been informed of the additional expenditure through the document FCCC/SBI/2001/16, Page 8, Para 18, dated 19 October 2001.

Trust Funds for participation in the UNFCCC process (FI)
and for supplementary activities (FR)

20. The "Trust Fund for Participation in the UNFCCC process" (FI) and the "Trust Fund for Supplementary activities" (FR) depend exclusively on voluntary contributions. Table 2 shows that a shortfall in income reduced the reserves and fund balances of the Trust Fund for Participation, which funds some 200 participants at every session of the COP and over 100 participants at the subsidiary body meetings. The Trust Fund for Supplementary activities matched 95 per cent of the planned budget income, while the foreseen expenditure reached 55 per cent of the budget. The net excess of over $2.6 million increased the reserves and fund balances, contributing to a further improvement of the overall financial position.

Table 2. Prevision and implementation of the Trust Funds
(In thousands of United States dollars)

	Trust Fund for Participation in the UNFCCC process	**Trust Fund for Supplementary Activities**
Budget proposal	3 691.8	6 178.9
Income *(per cent of budget)*	2 995.8 *(81.1)*	5 873.3 *(95.1)*
Expenditure *(per cent of budget)*	3 689.9 *(99.9)*	3 427.0 *(55.5)*
Net excess (short fall) [a] *(per cent of budget)*	577.4 *(15.6)*	2 661.5 *(43.1)*

a) The difference between income and expenditure is corrected by prior period adjustment (see statement 1 of the financial statements)

21. The Board notes that the shortfall in income for the Trust Fund for Participation in the UNFCCC process did not lead to limiting its expenditures, exposing it to a 15.6 per cent net deficit, and recommends that the Secretariat make further efforts to improve the fund-raising or adjust the expenditure according to actual resources.

UNITED NATIONS SYSTEM
ACCOUNTING STANDARDS

22. The Board assessed the extent to which financial statements of UNFCCC for the biennium ended 31 December 2001 conformed to the United Nations System Accounting Standards (UNSAS). The review indicated that the presentation of the financial statements was generally consistent with the standards.

AFTER-SERVICE LIABILITIES

23. In its report for the previous biennium, the Board recommended that UNFCCC disclose in the notes to the financial statements the value and method of valuation of liability for end-of-service benefits, post-retirement benefits and annual leave in compliance with UNSAS. This recommendation has not been implemented in the financial statements, prepared by UNOG. Moreover, there is no provision in UNFCCC's financial statements to cover the liability for after-service health insurance. UNFCCC was to contact again the United Nations Headquarters on this matter, to perform an actuarial valuation of the liabilities.

24. The Board reiterates its previous recommendation on the disclosure of after-service liabilities and recommends that UNFCCC, in conjunction with the United Nations and other funds and programmes, review the funding mechanism and targets for after-service benefits to provide for the full estimated liability.

NON-EXPENDABLE PROPERTY

25. Further to the Board' review, UNFCCC included in its inventory of non-expendable property information and communication hardware and software valued at an acquisition cost of $2,872,216. The Board noted that $905,921 in IT equipments (31 per cent of the total value of such equipments) bought prior to 1996 were not written off until the Joint Local Property Survey Board met for the first time in May 2002. Since the Board's audit, UNFCCC has launched a review of its inventory guidelines.

26. The Board recommends that UNFCCC take decisions timely on write-off of non-expendable property, in compliance with United Nations regulations.

DISCREPANCIES BETWEEN THE FINANCIAL STATEMENTS AND THE ALLOTMENT REPORTS

27. As shown in table 3, the global amounts reported as unliquidated obligations (ULOs) in the allotment reports issued by Trust Funds do not match the amount of ULOs in the financial statements:

Table 3. Unliquidated obligations reported in the financial statements and in the allotment reports

Trust Funds	a. Financial statements	b. Allotment report	c. Difference	Percentage c/a
Programme support costs (ZR)	13 525	11 029	2 496	18.4
Supplementary Activities (FR)	240 716	215 784	24 932	10.3
Participation in the UNFCCC process (F1)	484 394	453 772	30 622	6.3
Core budget of UNFCCC (FC)	2 005 520	1 897 329	108 190	5.4

28. There is no internal control on misposting in the accounts or reconciliation between allotment figures and trial balance. Also, in case of overspending, the initial allotments are not supplemented by new allotments, which may explain most discrepancies between the financial statements and the allotment reports. UNFCCC informed the Board that corrective action has been taken, in liaison with UNOG, regarding the checking of the unliquidated obligations, their reconciliation with the financial statements, and that the 2002 opening balance would now match the closing balance of 2001.

29. The Board recommends that UNFCCC pursue, in liaison with UNOG, the improvement of accounting and internal controls.

UNLIQUIDATED OBLIGATIONS

30. Supporting documentation is not always available on unliquidated obligations, and some that should have been cancelled or settled remain posted as unliquidated obligations in the financial statements.

(a) Examples relating to obligations that should have been liquidated (settled): include many for which travels were completed, and disbursements were made; another example, relate to a

miscellaneous obligation for which the imprest account opened for the Mexico workshop held in May 2000 was still open early 2002 for $50,000 in the trial balance, while funds had been accounted for, and the remaining $6,308 returned, on November 2000;

(b) Example of obligations which should have been cancelled: obligations erroneously raised twice for the same travel and not corrected later; disbursements not made against the relevant obligation, the later remaining improperly as ULO. After the Board's audit, UNFCCC began to clear all unliquidated obligations.

31. The Board recommends that UNFCCC complete its review of unliquidated obligations in compliance with financial regulations.

TRAVEL ADVANCES

32. Uncleared staff travel advances amounted to $380,197 at the end of 2001. There was no obligation document reference for $47,921, except for a reference to "UN 3002100". About a third of the outstanding travel advances recorded had been issued prior to 2000: 9 in 1997, 18 in 1998, 23 in 1999, 34 in 2000, for a total amount of over $100,000. Some $81,000 related to only 10 staff members for uncleared travel advances at the end of 2001. In some 15 per cent of cases, the travel advance paid had been directly accounted for as expenditure. UNFCCC has initiated corrective actions after the Board's review.

33. The Board recommends that UNFCCC (i) settle all old outstanding travel advances promptly and improve internal controls, in order to ensure that travel advances are regularly cleared, and (ii) cease directly accounting for advance travel payments as final expenditure.

WRITE-OFF LOSSES OF CASH, RECEIVABLES AND PROPERTY

34. UNFCCC reported losses of $8,749 on travel advances.

EX-GRATIA PAYMENTS

35. No ex-gratia payments were reported by UNFCCC during the biennium 2000-2001.

D. MANAGEMENT ISSUES

IMPREST ACCOUNT

36. A bank account was opened in 1996 in a bank located at Bonn. The monthly cash level has quadrupled to 1.3 million Deutsche Mark at the end of 2001. The initial banking conditions have never been renegotiated with the bank. While no interest is received on the balance of the bank account, fees are charged by the bank for services. UNFCCC indicated that a re-negotiation of banking facilities would depend on whether a treasury function of sufficient size subsisted once IMIS is implemented. UNFCCC would then proceed to negotiate for improved banking facilities, and has already taken steps into that direction.

37. The Board recommends that, pending the decision on IMIS implementation, banking conditions and services be renegotiated by UNFCCC and the resulting new agreement with the bank should be formally approved by the United Nations Headquarters Treasurer through UNOG.

ADMINISTRATIVE ARRANGEMENTS

Common administrative services

38. Under the administrative support arrangements agreed in 1996, the United Nations Office at Geneva provides support to UNFCCC in the areas of personnel, finance and common services. In 1998, UNFCCC and the United Nations reviewed the administrative arrangements with a view to determining how they could be best organized to strengthen and clarify accountability in a cost-effective manner. On the basis of the results of the review, all parties concerned agreed that, with certain exceptions, UNFCCC should assume responsibility for all its administrative, financial, procurement, personnel and travel functions. The Board had recommended that, until transfer of all functions is complete, UNFCCC and UNOG reach a clear understanding as regards responsibility for the accuracy and completeness of the secretariat's financial records and the financial statements submitted to the Conference of Parties. These recommendations have been accepted by the Conference of Parties, which invited the Executive Secretary to implement the recommendations.

39. UNFCCC has assumed responsibility for human resources management up to, but not including, the payroll computation and payment, which continue to be performed by UNOG. Staffing in its personnel section has been increased and payroll data is now being input to the IMIS module only by a mail link between UNFCCC and UNOG. Progress, albeit to a lesser degree, has also been achieved very recently in the transfer of additional administrative and financial responsibilities to UNFCCC.

40. The expenditure carried out through the Bonn imprest-account in Deutsche Mark, now Euros, is accounted for in Geneva with delay, which involves supplementary checks and administrative work. A part of income, especially interest income (and miscellaneous income) cannot be verified in Bonn as the supporting documentation is kept in Geneva. Certifying officers do not always have on file the necessary data.

41. As recommended by the Board in its previous report, UNOG and UNFCCC, after discussing several versions, signed two Memorandums of Understanding agreement, for the periods 2000–2001 and 2002, on 16 October 2001 (UNFCCC) and on 20 December 2001 (UNOG). This late conclusion for the last biennium, a few days before the related period expired, exposed UNFCCC to the continuing risk of inaccuracies in financial records and statements and explains the limited progress toward streamlining administrative functions.

42. The Board recommends that UNCC complete with UNOG the review of administrative arrangements between United Nations entities in Bonn in order to streamline and build up common services capable of providing transversal administrative and financial functions in the most cost-efficient fashion.

Staffing and costs of administrative and financial functions

43. The proposed budget for 2000–2001 (FCCC/CP/1999/INF.1) stated that no financial management and administration posts are required in the core budget and that the overhead charge resources will be used to fund 14 financial and administrative posts (subject to review of administrative arrangements). The approved budget for 2000–2001 (FCCC/CP/1999/6/Add.1) includes overhead charges totalling $2.02 million for 2000 and $2.07 million for 2001.

44. All administrative posts are funded from the programme support cost payments earned by UNFCCC. In May 2000, the Executive Secretary approved a revised structure for administration and finance, with 31 posts. This staffing table was more than double the proposal which led to the approval of the 2000–2001 budget. In February 2001, the staffing table was further increased to 40 posts. As at 1 April 2001, the secretariat had a total of 41 administration and finance posts, representing some 30 per

cent of the 141-strong staff. Based on these figures, the ratio of non-administrative to administrative staff is 2.9:1.

45. UNCC has commented that its Executive Secretary reports to the COP the total expenditures arising out of programme support costs, and has the authority to recruit administrative staff to support programmes without its prior approval.

46. UNFCCC funded its administrative and finance functions with a support from the United Nations Headquarters Fund for administrative costs (fund OKB, $1,586,000 in 2000, entirely spent by year-end 2001), and from its own Support Costs, from the fund ZR which amounted to $4,368,000, of which $1,929,000 were spent. Added to the costs of services provided by UNOG ($128,100 in 2000 and $199,700 in 2001), the total costs for the administrative and finance functions amounted to $3.8 million during the biennium

47. The administrative and financial functions of UNCCD and the United Nations Framework Convention on Climate Change (UNFCCC) are currently performed partly by their respective secretariats and partly by UNOG. Other non-programme functions, such as maintenance, cleaning and security are provided by a Common Services Unit which assists UNCCD, UNFCCC and other United Nations agencies located in the same premises. These organizations are faced with similar difficulties which they could address jointly while retaining their independence, but they have not yet extensively shared common tools, and have no extensive joint services. UNCCD and UNFCCC have been exploring the feasibility of establishing a Common Management Services unit to deal with such aspects as finance, general administration, human resources, procurement and travel.

48. The Board commends UNFCCC for this initiative and recommends that a Common Management Services unit be implemented in light of the implementation of the integrated management information system.

INFORMATION AND COMMUNICATION TECHNOLOGY

49. The Information and Communication System (ICT) costs are high for an organization of the size of UNFCCC ($3.2 million for the biennium), due partly to the fact that UNFCCC replicates the entire headquarters ICT environment twice per year at conference venues in Germany and elsewhere; these conference ICT environments support 150 or more staff as well as provide ICT services for up to 4,000 participants per conference. UNFCCC indicated that this explains why the equipment value was $2,872,216 as at 31 December 2001 out of which $905,921 was to be written-off. Forthcoming write-offs deducted, this amounts to some $18,000 in equipment for each of the 109 permanent staff members.

50. The technical infrastructure is recent and well-suited to the present activities, as is the staffing (18 posts, out of which 7 posts are directly concerned with ICT), but a lack of strategy has prevented UNFCCC from planning its ICT equipment and staffing requirements in the longer term. There is no short, medium or long-term ICT strategy. Hardware and software policies were established in 1998 and updated in 2000, but there are no coherent tools to track the budget components and monitor performance indicators.

51. The Board recommended, and UNFCCC agreed, to introduce a long-term ICT strategy, and coherent monitoring of ICT expenditure and performance.

52. The level of ICT security is satisfactory, although there is no disaster recovery plan, since the applications hosted in Bonn are not critical to the operations, and no off-site back up procedure.

53. The Board recommended, and UNFCCC agreed, to promptly implement an off-site back up procedure, and to develop disaster recovery plan and procedures.

54. Accounting documents are sent directly to Geneva by mail, and the UNOG teams enter Human Resources data on the Integrated Management Information System (IMIS) R2/4 (employee administration, payroll), and accounting data either on IMIS R3 (program support budget and accounting) or on the old GAS SYSTEM (accounting and budget). In August 2000, a link with the UNOG IMIS payroll module has been put on-line, but UNFCCC has no tool to register and track operations, as the neighbouring United Nations Convention to Combat Desertification (UNCCD) operates under similar circumstances, nor does it apply a posteriori controls on data entered at UNOG.

55. The Board has recommended, and UNFCCC has agreed, to improve procedures to register, track and control UNOG-based operations.

56. Given the lack of effective controls, UNFCCC remains exposed to serious risks in terms of reliability of the accounting data. The information system is not fully secure in regard to the exchange of data with UNOG, and controls are neither formalized nor carried out on a regular basis. The risk of input errors is high. Moreover, processing lead-times can be as long as several weeks or months if there have been errors when entering data. Management in Bonn relies on the reports provided by UNOG, which are not standardized due to the three systems in use, rendering their monitoring partly ineffective. The small size of the organization enables it, however, to manage flows manually and in detail. The Board expresses serious doubts about the reliability of the mixed Bonn-Geneva, IMIS/GAS environment and about the related data output.

57. UNFCCC has been considering the local introduction of a financial management system. The United Nations Office at Geneva is of the opinion that it would be more economical to implement IMIS both in UNFCCC and the United Nations Convention on Climate Change (UNCCD). Consultations have been held, but by June 2002, no decision had been reached. The ensuing delays have impacted staff training, and accordingly impaired the streamlining and delivery of the administrative and financial functions. UNFCCC indicates that it has recently agreed to implement IMIS and has taken steps to upgrade the existing technical infrastructure, in order to accommodate additional demands posed by IMIS Release 3, and to provide a common gateway both UNCCD as well as for itself.

58. The Board has recommended, and UNFCCC has agreed, to promptly implement the financial module of IMIS in conjunction with UNOG and UNCCD.

HUMAN RESOURCES MANAGEMENT

59. UNFCCC selected IMIS solely for human resources management system. Final actions as well as payroll are processed, based on hard copies, by UNOG, instead of operating a direct data link. There is no procedure to verify that human resources actions initiated in Bonn are exactly taken into consideration by UNOG.

60. The secretariat manages and inputs "personal and social" data whereas UNOG manages data such as within grade increment. When a grade increment is not implemented, the Personnel Unit is informed by the staff member concerned and informs UNOG accordingly (two cases in November 2001). Payroll is processed by UNOG, which provides no feedback to the UNFCCC Human Resource Management Unit in Bonn. Pay slips or records of salary are not communicated, and the post incumbency report is not accurate: as at December 2001, two active staff members were not disclosed in the report. UNFCCC therefore has no control over payment of salaries or follow-up regarding budget.

61. The personnel management coding system does not reflect the different budget programmes of the secretariat (only one IMIS code 3418 for the whole secretariat). The follow-up of the implementation is complicated and needs a lot of corrections and reversals. UNFCCC indicated that such shortcomings might be solved by the introduction of IMIS Release 4 (salary related) which is planned to be implemented by end June 2002.

62. The Board recommends that UNFCCC improve its communication with UNOG, to ensure that human resources actions in Bonn are exactly implemented by UNOG.

63. The Board's review of a sample of consultant contracts disclosed a frequent lack of compliance with United Nations rules and guidance. Contrary to United Nations Administrative Instruction ST/AI/1999/7, consultants have been recruited directly without sufficient competition. Terms of reference do not always set out the quantity and quality of outputs expected from the consultants.

64. The Board recommended, and UNFCCC began, to review the compliance of its consultant contracting procedures with United Nations Regulations.

65. The Human Resources Management Unit has reviewed the determination of steps within grade for all staff (Professional and General Services staff). Out of 109 staff members, 55 were graded correctly, 38 were under-graded and 16 over-graded. The UNFCCC secretariat has the authority to remedy any situation on a retroactive basis, if found justifiable; it is considering a plan to do so. For this purpose, at the end of the biennium 2000–2001, an amount of $200,000 was accounted for as unliquidated obligation in the Core Budget to correct the situation of under-graded staff, when the decision is effectively made. The over expenditure resulting from over-graded steps has not been considered.

66. The Board recommends that UNFCCC value precisely the costs incurred on the over-graded staff members and take steps to prevent over-expenditure.

CASES OF FRAUD AND PRESUMPTIVE FRAUD

67. No cases of fraud or presumptive fraud were reported to the Board during 2000–2001.

E. ACKNOWLEDGEMENT

The Board of Auditors wishes to express its appreciation for the co-operation extended by the Executive Secretary and staff of UNFCCC and by the United Nations Secretariat.

(signed)
Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(signed)
Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(signed)
François **Logerot**
First President of the Court of Accounts of France

27 June 2002

F. Annex

Follow-up on action taken to the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999

The Board has followed-up on the actions taken by UNFCCC to implement the Board's recommendations made in the context of its report for the biennium ended 31 December 1999. Table A summarizes the status of implementation of all the previous recommendations, while table B details specifically those recommendations not implemented, and those recommendations under implementation which require further comment.

A total of 13 recommendations were made in the audit of the biennium 1998–1999. Of the 14 recommendations, 1 (7 per cent) was implemented, 10 (86 per cent) were under implementation and 1 (7 per cent) was not implemented.

Table A. Summary of status of implementation of recommendations for the biennium ended 31 December 1999

Topic	Implemented	Under implementation	Not implemented	Total
COMPONENT A Financial Issues				
1. Non-expendable property		para. 10		
2. Accounts and financial reporting		Para. 8 (b) Para. 8 (c)	Para. 8 (a) (para. 11)	
3. Income	Para. 12			
Subtotal no.	1	3	1	5
Subtotal %	20%	60%	20%	100%
COMPONENT B Management Issues				
5. Offices and Common services		Para. 8 (d)		
5. Procurement		Para. 8 (e) Para. 8 (f) Para. 33, 37, 43		
6. ICT		Para. 42		
7. Consultants		Para. 8 (g)		
8. Accounts and financial reporting		Para. 8 (h)		
Subtotal no.	0	9	0	9
Subtotal %	0%	100%	0%	100%
TOTAL - No.	1	12	1	14
TOTAL %	7%	86%	7%	100%

Table B: Details on previous recommendations under implementation or not implemented for the biennium 1998-1999

Management			
Component/Area of concern	**Recommendation**	**As at *30 April 2002*** **Specific management action/comments**	**Comments of the Board**
(A)	(B)	(C)	(D)
Non-expendable property Ref.: Para. 8 (a)	To disclose in a note to the financial statements the value and method of valuation of non-expendable property…	Implemented.	Under implementation Refers to paragraph 26 and 27 of present report
Accounting and financial reporting Ref.: Para. 8 (a)	… and of liability for end-of-service benefits, post-retirement benefits and annual leave, in compliance with United Nations Accounting Standards.	This matter will be discussed with the Chiefs of Finance and Personnel and will be implemented in the future.	Not implemented Refers to paragraph 28 and 29 of present report
Accounting records Ref.: Para. 8 (b)	Ensure proper accounting records of conference payments, including signed receipts for payments, and proof of identification	UNFCCC in consultation with UNOG/UN financial services and has established a procedure for the approval, rostering and recording of such payments plus a means of verifying the validity of recipients and recording their receipt of such payments.	Under implementation The secretariat should now ensure their proper accounting in due time in the various trust funds.
Unliquidated obligations Ref.: Para. 8 (c)	UNFCCC regularly review unliquidated obligations to retain only those related to valid charges	With the strengthening of the Finance Unit, UNFCCC intends to increase its concentration on this issue in the future.	Under implementation Paragraphs 33-34 of present report show that no significant progress has been made.
Memorandum of understanding with UNOG Ref.: Para. 8 (d)	Memorandum of Understanding agreed between UNFCCC and UNOG should clearly set out the respective requirements of both parties to achieve prompt, cost efficient services.	Signed in December 2001 for 2000-2001.	Under implementation. The 2002-2003 agreement should be promptly signed.

Management			
Component/Area of concern	**Recommendation**	**As at *30 April 2002*** **Specific management action/comments**	**Comments of the Board**
(A)	(B)	(C)	(D)
Procurement Ref.: Para.33	To revise procurement procedure guidelines as a matter of priority with UNOG.	The Secretariat reported that its procedures and practices do not fully respect the United Nations procurement practice but steps are being taken to present those practices in the form of an Administrative guideline on Procurement for approval and promulgation by the Management Committee.	Under implementation The Board expresses its concern that no progress has been made on this matter since 1999, the guidelines are still in preparation.
Procurement Ref.: Para. 8 (e)	The secretariat should take action to discontinue involvement of authorizing officers in preparing requests for bids, a function which should be performed independently by the procurement staff.	UFCCC has taken steps to strengthen the Procurement and General Services Unit and to segregate the various procurement functions. But the proper segregation of procurement functions and responsibilities will be implemented when a procurement officer will be appointed. This was announced for the first quarter of 2002, but was not completed at that time.	Under implementation Considering the increase of administrative capacity, the Board expresses its concern on the low priority given to this matter.
Procurement Ref.: Para. 8 (f)+37	To prepare plans for anticipated purchases, in order to benefit from economies of scale through bulk purchasing.	Explanations provided, toward new steps	Under implementation The Board looks forward new steps.
Information Technology Strategy Ref.: Para. 42	That the secretariat establish an Information Technology Strategy to ensure that its future procurement of computer equipment is fully justified and undertaken in the most cost effective way.	Responsibility for inventory (hardware and software) was clarified and efforts made to update records on location and use of all equipment. The Information Technology Equipment Policy was amended to harmonize equipment specifications for staff and simplify allocation. Further, the Management Group agreed on the adoption of United Nations standards for software. For 2001, an Information Technology Purchase Plan was prepared and approved. It will be further elaborated into Information Technology strategy by the created Information Technology Task Force.	Under implementation Refers to paragraph 50 to 58 of present report

Management			
Component/Area of concern	**Recommendation**	**As at *30 April 2002*** **Specific management action/comments**	**Comments of the Board**
(A)	(B)	(C)	(D)
Procurement Ref.: Para. 43	The roster of vendors should include information concerning the performance of each supplier used.	The Secretariat reported that the implementation of this recommendation will be a part of the future automated management information system and that, at the moment, the staff of the Procurement and General Services Unit need to rely on hand written notes on performance placed on the procurement files, if applicable.	Under implementation
Consultants Ref.: Para. 8 (g)	To require justification for proposals to contract consultants on a single source basis; with terms of reference on the quantity and quality of outputs expected, target dates and performance indicators; and the qualifications of candidates	The Secretariat referred to a forthcoming Administrative guideline for short-term recruitment and indicated that the new policy should be in place by February 2002.	Under implementation
Administrative arrangements for UNFCCC Ref.: Para. 8 (h)	Until transfer of all functions is complete, UNFCCC and UNOG reach a clear understanding on responsibility for the accuracy and completeness of the secretariat's financial records and of the financial statements presented to the Conference of the Parties.	UNFCCC has recruited a Finance Officer, whose first important function will be to propose the system. The secretariat has also regularly informed the Parties of its considerations, decisions and developments regarding the selection of an appropriate management information system, which will be in place by July 2002.	Under implementation The Board notes welcomes the very recent improvements mentioned in this report, and will follow up.

G. AUDIT OPINION

We have audited the accompanying financial statements, comprising statements I to IV, and schedules 1.1 to 1.2 and the supporting notes of the United Nations Framework Convention on Climate Change (UNFCCC) for the financial period ended 31 December 2001. The financial statements are the responsibility of the Executive Secretary. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Secretary, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2001 and the results of operations and cash flows for the period then ended in accordance with United Nations Framework Convention on Climate Change stated accounting policies set out in note 2 of the financial statements which were applied on a consistent basis with that of the preceding financial period.

Further, in our opinion, the transactions of United Nations Framework Convention on Climate Change which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of United Nations Framework Convention on Climate Change financial statements.

(signed)
Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(signed)
Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(signed)
François **Logerot**
First President of the Court of Accounts of France

27 June 2002

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